



# Investor Presentation

First Half 2019



# Safe Harbor

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Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of the Company's Form 10-K, and the current Quarterly Report on Form 10-Q.

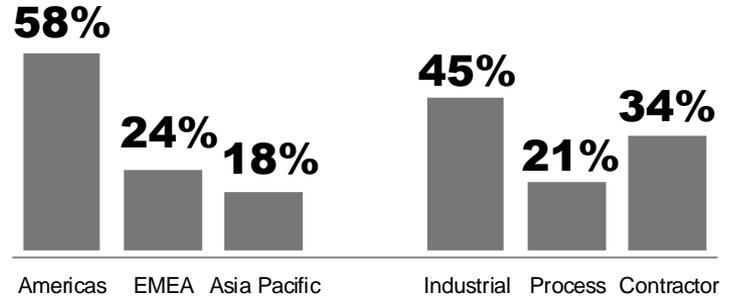
# Distribution of Global Sales



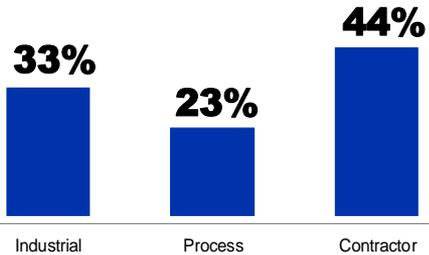
## Worldwide

**\$833 M**

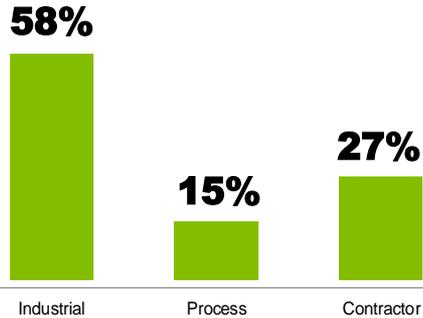
June 2019  
Year to Date



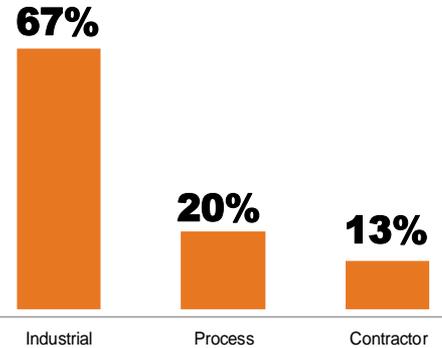
## Americas



## EMEA

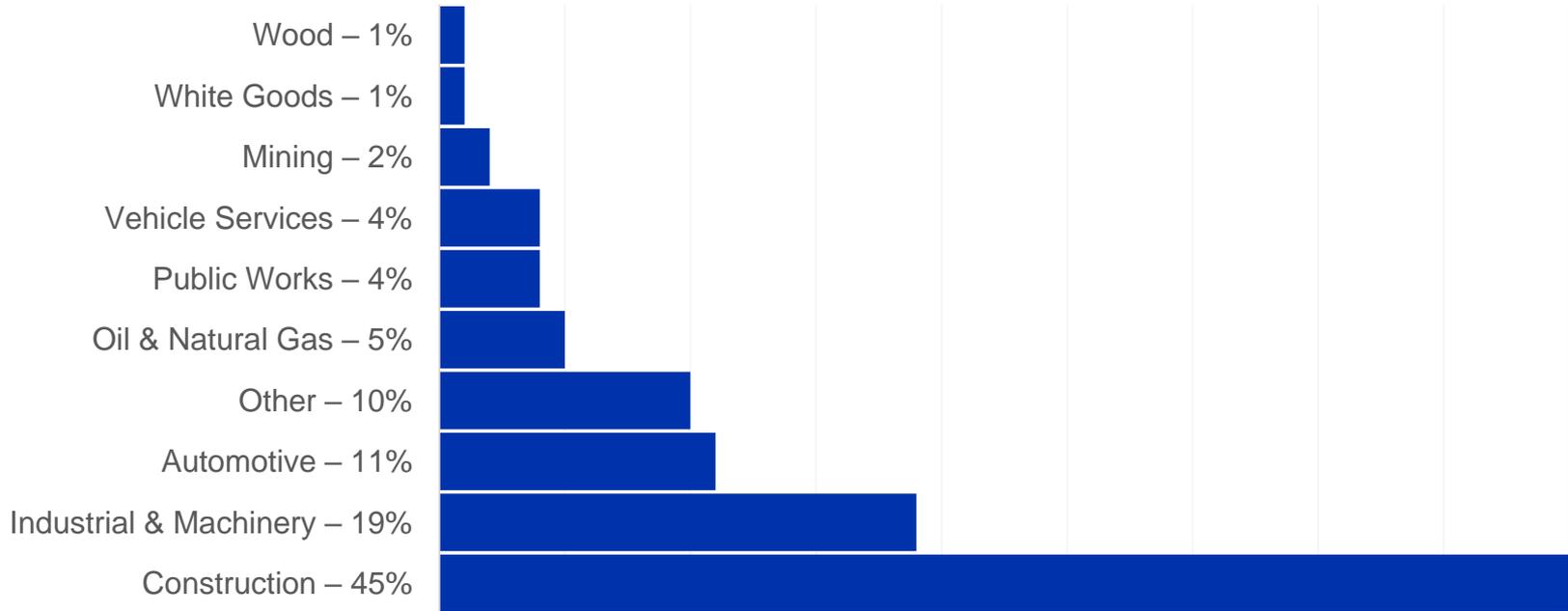


## Asia Pacific



# 2018 Sales by End Market

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# Company Overview



- ▶ Part of Your Everyday Life
- ▶ Diversified Fluid Handling Business
- ▶ Driving Value, Customer ROI
- ▶ Strategic Initiatives
- ▶ Organically Driven, with Exceptional Returns



Graco is part of your  
**everyday life.**





Graco is part of your  
**everyday life.**



# Diversified Fluid Handling Business



## Niche

Difficult applications; corrosive,  
viscous, hard-to-move materials

## 6%+

Organic Revenue CAGR\*

## ~40%

Of revenue is parts  
& accessories

\*20-year average, constant currency

# High Customer Value, Strong Product Differentiation



# Low Volume, High Mix Delivers Customer ROI

Average Number of Units Sold Per Day	No. of SKUs		2018 Sales (\$ in millions)	
0 - 1	59,400	93%	\$ 820	50%
2 - 5	2,900	5%	\$ 295	18%
6 - 10	800	1%	\$ 129	8%
11 - 15	300	0%	\$ 55	3%
Greater than 15	800	1%	\$ 354	21%
<b>Graco 2018</b>	<b>64,200</b>		<b>\$1,653</b>	

Highly-valued products  
at low volumes

**50%**

of our revenue  
comes from products  
that we sell

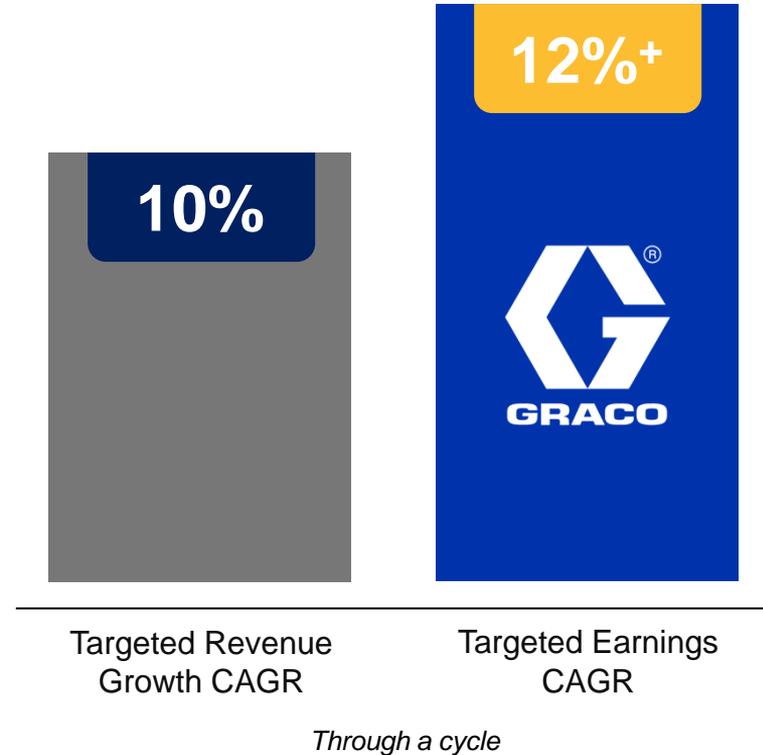
**zero to one  
per day**

# Growth Plans and Earnings Drivers

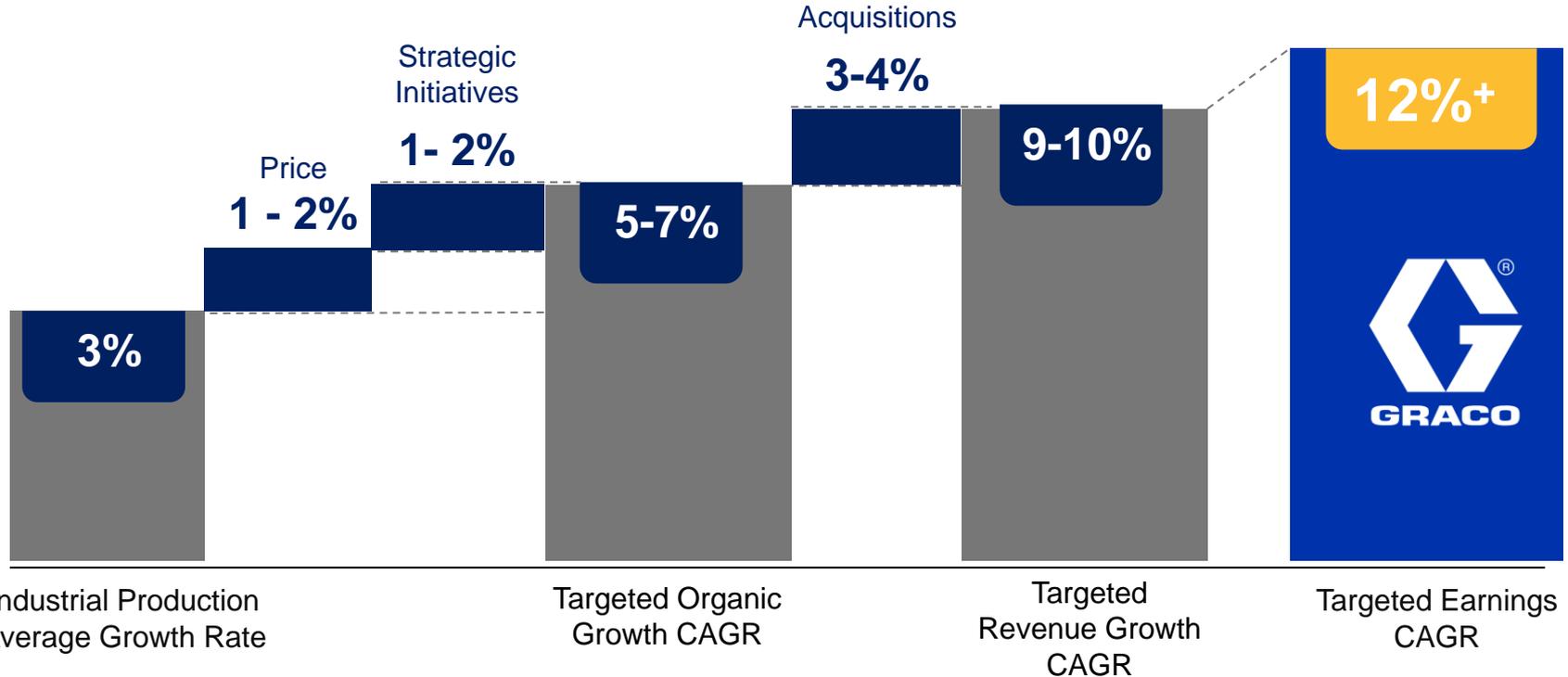


## Strategic Initiatives

- ▶ New Product Development
- ▶ New Markets
- ▶ Global Expansion
- ▶ Acquisitions
- ▶ End-user Conversion



# Growth Plans and Earnings Drivers





# Exceptional Returns

**6%+**

Organic Revenue CAGR

**31%**

Return on Invested Capital

**51%**

Return on Equity

**20%**

Return on Assets

Based on a 20-year average, constant currency

# Business Model



- ▶ Brand Promise
- ▶ Operational Excellence
- ▶ Engineering & Manufacturing Excellence
- ▶ Extensive Reach



# Our Brand Promise

- ▶ **Innovation** – Leading with technologically-advanced features, pioneering design, high performance and unparalleled reliability
- ▶ **Quality** – Our customers invest in high-quality products built to last for years of reliable service
- ▶ **A+ Service** – We're guided by a mindset of integrity and a customer service view centered on collaboration and relationships, not transactions



# Engineering Excellence

Target  
**Double-Digit  
Returns**

New product

Annual R&D Investment

More than **2.5X\***  
our peer group

**4.3%\***  
as a percent of sales  
vs. peers at 1.6%

\* Peers: ITW, CSL, DOV, CFX, IEX, NDSN, WTS, FLS, based on a 5-year average, 2014 - 2018

# Manufacturing Excellence



**80%**

Production based in the US

Goal is

**Zero**

cost change  
on the same basket of goods (yoy)

**< 1%**

Warranty costs

# Service Excellence



## Same Day

Orders in by noon,  
ship the same day

## 95%+

In-stock service level  
(goal is > 92%)



# Extensive Reach

**30,000+**  
Outlets/Distributors

Customers in over

**100**

countries

Facilities in

**12**

countries

Installed base

**~100**

years old

# Company Segments



- ▶ Industrial
- ▶ Process
- ▶ Contractor

# Industrial

## Key End Markets

- ▶ General industrial
- ▶ Automotive
- ▶ Res & non-res construction
- ▶ Alternative energy & others

## Growth Drivers & Trends

- ▶ Factory movement & upgrades
- ▶ Automation
- ▶ Technology upgrades
- ▶ Energy-efficiency upgrades
- ▶ Material changes

## Select Representative Industry Participants:

**Public** : Nordson, Carlisle, Exel

**Private**: Wagner and many other regional players



# Industrial



2019 First Half Performance

**\$378M**

▼ Segment Revenue

**1%**

▲ Organic Growth Rate

**34.3%**

▼ Operating Margin  
- 100 basis points

# New



## Intelligent Paint Kitchen – Expanded Offering

- ▶ Reduces downtime & cuts energy costs
- ▶ Controls both electric and pneumatic systems
- ▶ Remote monitoring capable
- ▶ Scalable – start with pneumatic, upgrade to electric when ready

**Industrial**

**New**



## Pro Xp™ Electrostatic Guns

- ▶ 50 new gun models to meet customer's spraying needs
- ▶ Pro Xp waterborne gun reduces equipment costs and improves transfer efficiency
- ▶ Improved durability, ease of adjustments, and spray performance

**Industrial**

# Process

## Key End Markets

- ▶ Pharma, food & beverage
- ▶ Vehicle services
- ▶ Oil & natural gas
- ▶ Environmental
- ▶ Semiconductor & others

## Growth Drivers & Trends

- ▶ Factory movements and upgrades
- ▶ Technology upgrades
- ▶ Energy-efficiency upgrades
- ▶ Asset life maintenance
- ▶ Commodities extraction
- ▶ Environmental regulations

## Select Representative Industry Participants:

**Public:** IDEX, Dover, Ingersoll Rand

**Private:** Lincoln, Vogel, Bijur, Hannay, Coxreels and many other regional players



# Process



2019 First Half Performance

**\$172M**

▲ Segment Revenue

**6%**

▲ Organic Growth Rate

**22.3%**

▲ Operating Margin  
+120 basis points

# New



## Pulse FC™ Fluid Control

- ▶ Wire-free fluid control
- ▶ Simple to use PC software with programmable cards for system set up & operation
- ▶ Allows facility owners to authorize all dispenses and collect fluid totals

## Process

# New



## SaniForce® 2.0 – Unloaders

- ▶ Saves time and money by pumping difficult materials quickly and safely
- ▶ Range handles low to high viscosity materials
- ▶ Featuring both manual and automatic controls

## Process

# Contractor

## Key End Markets

- ▶ Res & non-res construction
- ▶ Res & non-res remodeling
- ▶ Transportation Infrastructure

## Growth Drivers & Trends

- ▶ End user conversion from brush and roll
- ▶ Product innovation & channel expansion
- ▶ Housing & new construction
- ▶ Infrastructure spending
- ▶ Regional labor rates
- ▶ New markets
- ▶ Material changes

## Select Representative Industry Participants:

**Private:** Wagner/Titan, Campbell Hausfeld, Bedford, China copiers and other regional players



# Contractor



2019 First Half Performance

**\$284M**



Segment Revenue

**3%**



Organic Growth Rate

**23.5%**



Operating Margin  
- 140 basis points

# New BLUE-LINK



PAINTERS ARE ABLE TO MAXIMIZE UPTIME



NEW CONSTRUCTION



HOME REMODEL



HOSPITAL EXPANSION



MANAGERS ARE ABLE TO UNDERSTAND JOB PROGRESS



## Live

sprayer performance

## Track

Every sprayer

## Job

progress & productivity

## Maximize

Spray time

**New**



## Small to Large Electric Sprayer Upgrade

- ▶ Upgraded to include the new Contractor PC™ spray gun
- ▶ BlueLink™ system on board most models
- ▶ Some models upgraded to include new Vortex™ MaxLife® pumps



**Contractor**

# New

## All Day Striping on a Single Charge



### LineLazer® & LineDriver® ES

- ▶ No engine noise or exhaust fumes
- ▶ No engine vibration for crisper lines
- ▶ Can be used indoors and outdoors
- ▶ Stripe up to 60 gallons on a single charge
- ▶ Automatic parking lot layout and skip line patterns



# Capital Allocation



# Long-Term Cash Deployment Priorities



## Organic Growth

- ▶ International footprint
- ▶ Product development
- ▶ Production capacity and capabilities

## Acquisitions

- ▶ Supplement to organic growth
- ▶ Leverage our strengths

## Shareholder Return

- ▶ Solid dividend history
- ▶ Approximately 21 million shares remaining on repurchase authorization

- ▶ Drive long-term, above-market growth
- ▶ Premium products that deliver strong ROI for end users
- ▶ Leading industry positions
- ▶ Serve niche markets where customers are willing to purchase quality, technology-based products
- ▶ Products perform critical functions
- ▶ High margin, high recurring revenue
- ▶ Consistent investments in capital and growth initiatives
- ▶ Shareholder-minded management
- ▶ Financial strength



## Key Investment Attributes

# Acquisitions





# Acquisition

▶ Industrial

**EQ** EcoQuip<sup>®</sup>  
VAPOR ABRASIVE™ BLAST EQUIPMENT

**GE-BLASTER**<sup>®</sup>  
WET-ABRASIVE BLASTING EQUIPMENT

**hildebrand**  
TECHNOLOGY

**SAT**  
SurfaceAluminiumTech

**Gema**

**MULTIMAQ**  
sprayway

**machine**  
TECHNOLOGIES

**Advanjet**

2012

2013

2014

2014

2015

2015

2017

2018



# Acquisition

## ► Process



2013

2014

2015

2015

2016

# Financial Results



# Financial Performance June YTD

**0%**

Revenue Growth

**53.2%**

Gross Margin

**2%**

EPS Growth

**0%**

Net Income Growth

(As Reported)

# Financial Results

Statement of Earnings	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
\$ in millions except per share amounts						
Sales	\$ 428	\$ 425	1 %	\$ 833	\$ 831	0 %
Gross Profit	227	230	(1)%	443	452	(2)%
% of Sales	53.0 %	54.1 %	(1.1) pts	53.2 %	54.4 %	(1.2) pts
Operating Earnings	112	113	(1)%	217	225	(4)%
% of Sales	26.2 %	26.7 %	(0.5) pts	26.0 %	27.1 %	(1.1) pts
Net Earnings	\$ 88	\$ 89	(1)%	\$ 175	\$ 175	0 %
% of Sales	20.6 %	21.0 %	(0.4) pts	21.0 %	21.0 %	(0.0) pts
Diluted Earnings Per Share	\$ 0.51	\$ 0.51	0 %	\$ 1.02	\$ 1.00	2 %
<i>Diluted Shares in Millions</i>	172.0	173.3		171.5	174.5	
<i>Net Earnings, Adjusted (1)</i>	\$ 86	\$ 83	4 %	\$ 166	\$ 167	(0)%
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.50	\$ 0.48	4 %	\$ 0.97	\$ 0.96	1 %

*(1) Net earnings and diluted earnings per share for 2019 and 2018 have been adjusted to provide a more consistent basis of comparison of on-going results. See following page for a reconciliation of the adjusted non-GAAP financial measures to GAAP.*

# Financial Results Adjusted for Comparability

Excess tax benefit related to stock option exercises and additional benefit from tax planning activities reduced the Company's income taxes. Excluding the impact of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective tax rates, net earnings and diluted earnings per share follows:

Non-GAAP Reconciliation \$ in millions except per share amounts	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Income taxes, as reported	\$ 19.7	\$ 16.1	22 %	\$ 33.6	\$ 38.0	(11)%
Excess tax benefit from option exercises	2.2	6.4		7.4	7.9	
Other non-recurring tax benefit	-	-		1.5	-	
Income taxes, adjusted	<u>\$ 21.9</u>	<u>\$ 22.5</u>	(3)%	<u>\$ 42.5</u>	<u>\$ 45.9</u>	(7)%
Effective income tax rate						
As reported	18%	15%		16%	18%	
Adjusted	20%	21%		20%	22%	
Net earnings, as reported	\$ 88.1	\$ 89.1	(1)%	\$ 174.9	\$ 174.7	0 %
Excess tax benefit from option exercises	(2.2)	(6.4)		(7.4)	(7.9)	
Other non-recurring tax benefit	-	-		(1.5)	-	
Net earnings, adjusted	<u>\$ 85.9</u>	<u>\$ 82.7</u>	4 %	<u>\$ 166.0</u>	<u>\$ 166.8</u>	(0)%
Weighted Average Diluted Shares, in millions	172.0	173.3		171.5	174.5	
Diluted Earnings per Share						
As reported	\$ 0.51	\$ 0.51	0 %	\$ 1.02	\$ 1.00	2 %
Adjusted	\$ 0.50	\$ 0.48	4 %	\$ 0.97	\$ 0.96	1 %

# Second Quarter 2019 Results

Sales	<ul style="list-style-type: none"><li>▶ Changes in currency translation rates offset underlying growth. For the second quarter, sales up 1 percent (up 3 percent at consistent currency rates)</li></ul>
Gross Margin	<ul style="list-style-type: none"><li>▶ Rate down 1.1 percentage points from second quarter 2018<ul style="list-style-type: none"><li>▪ Unfavorable effect of currency translation</li><li>▪ Realized pricing offset adverse impacts of higher material costs</li><li>▪ Gross margin rate also affected by unfavorable factory volumes as well as unfavorable channel and product mix</li></ul></li></ul>
Operating Earnings	<ul style="list-style-type: none"><li>▶ Decreased \$1 million, or 1%, from second quarter 2018<ul style="list-style-type: none"><li>▪ Currency translation rates decreased operating earnings by approximately \$5 million partially offset by increases in underlying sales volume</li></ul></li></ul>
Other Expense	<ul style="list-style-type: none"><li>▶ Decreased \$3 million<ul style="list-style-type: none"><li>▪ Lower exchange losses on net assets of foreign operations and lower market-based pension costs</li></ul></li></ul>
Taxes	<ul style="list-style-type: none"><li>▶ The effective tax rate for the quarter was 18%, up 3 percentage points from second quarter 2018<ul style="list-style-type: none"><li>▪ Increase due primarily to a decrease in excess tax benefits related to stock option exercises</li></ul></li></ul>

# First Half 2019 Results

Sales	<ul style="list-style-type: none"><li>▶ Underlying growth was offset by currency translation rates compared to last year. Sales up 3 percent at consistent currency rates</li></ul>
Gross Margin	<ul style="list-style-type: none"><li>▶ Rate down 1.2 percentage points from 2018<ul style="list-style-type: none"><li>▪ Unfavorable effect of currency translation driving nearly half of the decrease, realized pricing partially offset adverse impacts of higher material costs and unfavorable channel and product mix</li></ul></li></ul>
Operating Earnings	<ul style="list-style-type: none"><li>▶ Decreased \$8 million, or 4%, from 2018<ul style="list-style-type: none"><li>▪ Currency translation rates decreased operating earnings by approximately \$11 million</li><li>▪ Lower gross margin rates offset by improved expense leverage</li></ul></li></ul>
Other Expense	<ul style="list-style-type: none"><li>▶ Decreased \$4 million<ul style="list-style-type: none"><li>▪ Lower market-based pension costs and lower exchange losses on net assets of foreign operations</li></ul></li></ul>
Taxes	<ul style="list-style-type: none"><li>▶ The effective tax rate for the year to date was 16%, down 2 percentage points from the comparable period last year<ul style="list-style-type: none"><li>▪ Decrease due to net benefits from U.S. tax reform provisions and non-recurring tax planning activities</li></ul></li></ul>

# Financial Results

## Components of Net Sales Change

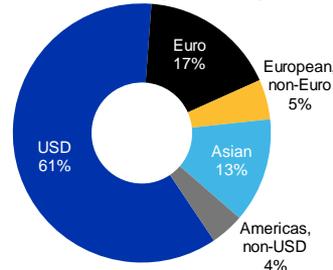
### Second Quarter 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	2 %	1 %	5 %	4 %	10 %	(6)%	3 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(3)%	(1)%	(1)%	(1)%	(6)%	(4)%	(2)%
<b>Total</b>	<b>(1)%</b>	<b>0 %</b>	<b>4 %</b>	<b>3 %</b>	<b>4 %</b>	<b>(10)%</b>	<b>1 %</b>

### Year-to-Date June 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	6 %	3 %	4 %	7 %	(7)%	3 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(3)%	(2)%	(2)%	0 %	(6)%	(4)%	(3)%
<b>Total</b>	<b>(2)%</b>	<b>4 %</b>	<b>1 %</b>	<b>4 %</b>	<b>1 %</b>	<b>(11)%</b>	<b>0 %</b>

### 2019 Sales by Currency



Asian currencies include:

AUD, CNY, KRW, JPY

European, non-Euro currencies include:

CHF, GBP, RON

Americas, non-USD currencies include:

BRL, CAD, MXN

# Current Environment and Outlook

Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Q2 2019 4% 2019 4%	Sales Q2 2019 10% 2019 7%	Sales Q2 2019 (6%) 2019 (7%)	Sales Q2 2019 3% 2019 3%
Industrial Segment	Environment Unchanged  Sales Q2 2019 2% 2019 6%	Environment Unchanged  Sales Q2 2019 10% 2019 7%	Environment Downgraded  Sales Q2 2019 (6%) 2019 (10%)	Sales Q2 2019 2% 2019 1%
Process Segment	Environment Unchanged  Sales Q2 2019 1% 2019 6%	Environment Unchanged  Sales Q2 2019 2% 2019 6%	Environment Downgraded  Sales Q2 2019 3% 2019 4%	Sales Q2 2019 1% 2019 6%
Contractor Segment	Environment Unchanged  Sales Q2 2019 6% 2019 2%	Environment Unchanged  Sales Q2 2019 12% 2019 9%	Environment Downgraded  Sales Q2 2019 (16%) 2019 (5%)	Sales Q2 2019 5% 2019 3%
Full Year 2019 Outlook	Outlook Unchanged <b>Mid-single-digit</b>	Outlook Unchanged <b>Mid-single-digit</b>	Outlook Lowered <b>Low single-digit decline</b>	Outlook Lowered <b>Low single-digit</b>

Given the slow start to the year, we are lowering our full year 2019 worldwide outlook to low single digit organic sales growth on a constant currency basis.

# Q2 2019 Other Items

## Cap Ex

- ▶ Capital expenditure expectations of approximately \$40 million in 2019, excluding brick and mortar. Current estimate of 2019 building projects to increase production and distribution capacity is approximately \$110-\$115 million
  - Additional building project investments of approximately \$35 million anticipated in 2020 - 2021

## Expenses

- ▶ Unallocated corporate expenses in 2019 are expected to be approximately \$31 million

## Shares

- ▶ Through June 2019 we made no share repurchases. We may make opportunistic repurchases going forward

## Currency

- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2018, the unfavorable movement in foreign currencies would be a headwind on 2019 of approximately 1½% on sales and 3% on earnings, with the impact moderating in the second half of the year

## Taxes

- ▶ The effective tax rate for the third quarter and the full year is expected to be between 20% - 21%, excluding any impact from excess tax benefits related to stock option exercises and other one time items

## Tariffs & Materials

- ▶ Incremental impact of U.S. tariffs, retaliatory tariffs and higher material costs expected to be approximately \$25 million for the full year 2019

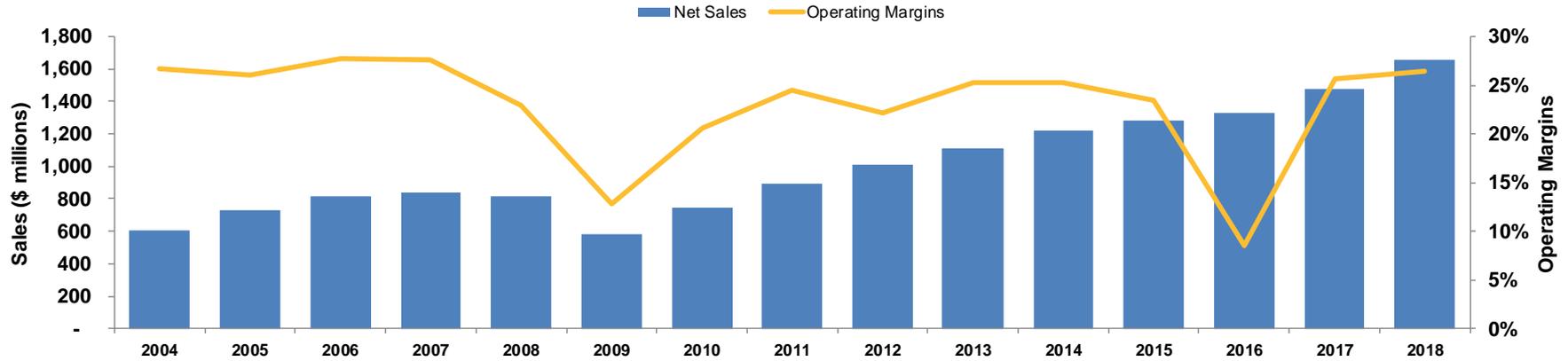
# Financial Summary



- ▶ 2018 Appendix

# Financial Performance

## Sales and Operating Margin, as Reported



Diluted  
EPS

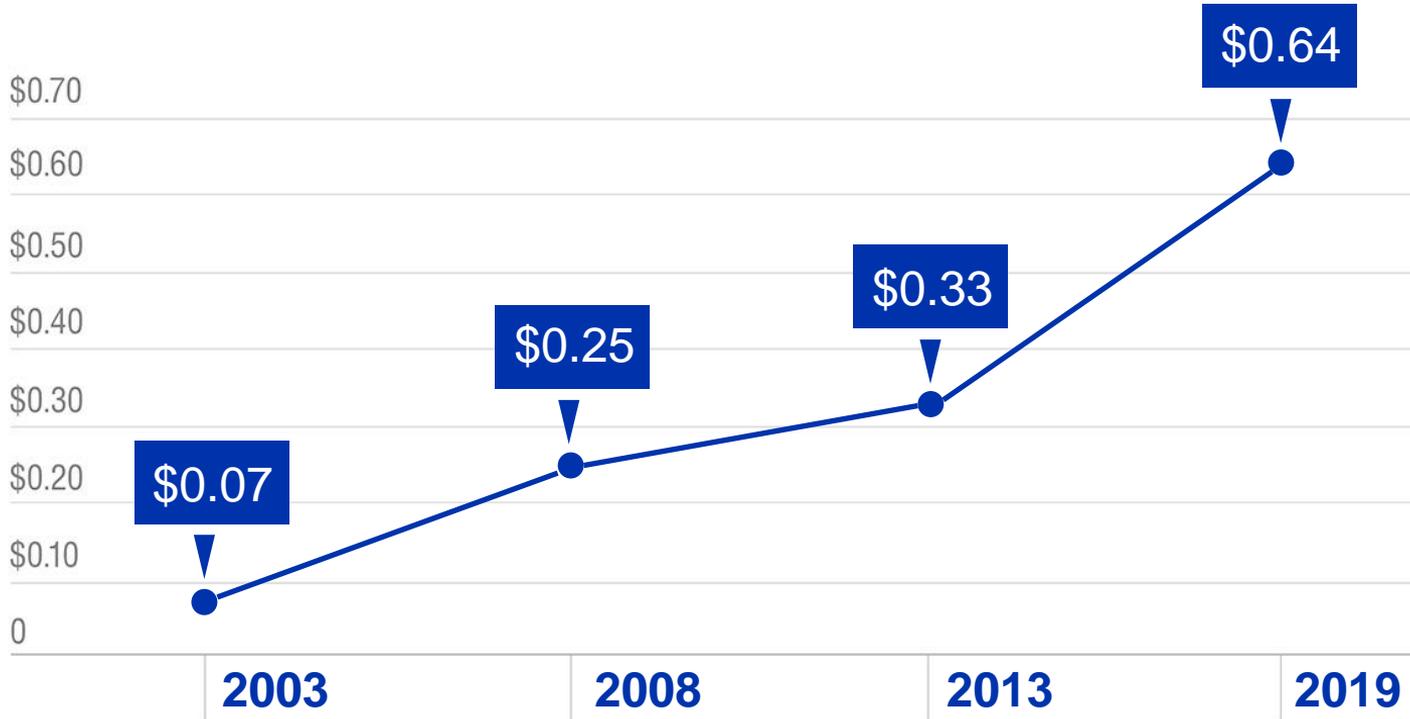
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$0.52	\$0.60	\$0.72	\$0.77	\$0.66	\$0.27	\$0.56	\$0.77	\$0.81	\$1.12	\$1.22	\$1.95	\$0.24	\$1.45	\$1.97

## As Adjusted

Diluted  
EPS

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$0.52	\$0.60	\$0.72	\$0.77	\$0.66	\$0.27	\$0.56	\$0.77	\$0.81	\$1.12	\$1.22	\$1.15	\$1.18	\$1.43	\$1.88

# Stock Dividend Growth



Dividends  
adjusted for  
stock splits

# Strong Cash Generation

(\$ Millions)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating Cash Flows	\$ 368	\$ 338	\$ 276	\$ 190	\$ 241	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147
% of Net Income	108%	134%	679%	55%	107%	115%	127%	114%	98%	300%
Capital Expenditures	54	40	42	42	31	23	18	24	17	11
Free Cash Flow	\$ 314	\$ 298	\$ 234	\$ 148	\$ 210	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136

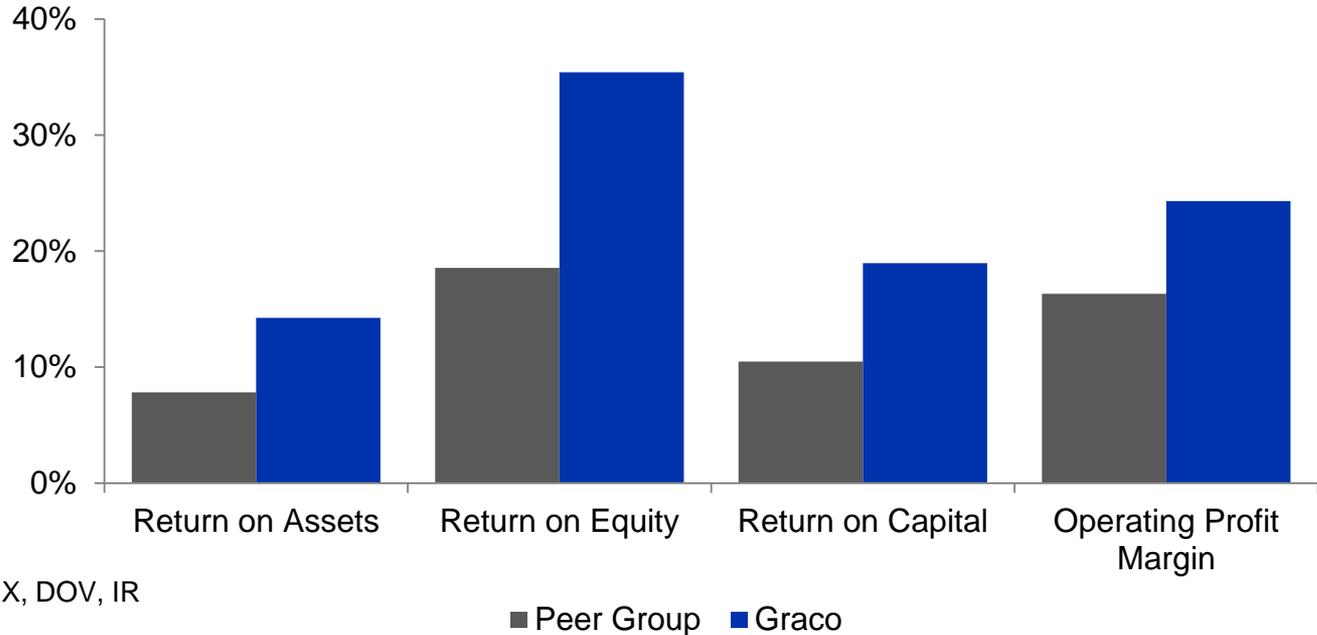
2016 – Impairment of Intangibles, net of tax, charge of \$161 million was reflected in net income. \$191 million and related change in deferred taxes (\$31) million included in adjustments to reconcile net earnings

2015 – Divestiture of Liquid Finishing Held Separate assets net gain \$141 million reflected in net income; effect of taxes on the gain, transaction costs and Foundation contribution are included in operating cash flows

(\$ Millions)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Dividends	\$ 89	\$ 80	\$ 73	\$ 69	\$ 66	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45
Acquisitions	11	28	49	189	185	12	667	2	-	-
Share Repurchases *	236	54	18	256	165	26	(29)	21	11	(6)
	\$ 336	\$ 162	\$ 140	\$ 514	\$ 416	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39

\* Net of shares issued

# Capital Efficiency – 5 Year Average



Note: 5-year average includes adjustment for 2016 impairment charge

Source: S&P Capital IQ

Peer Group: CSL, NDSN, IEX, DOV, IR



Move | Measure | Mix | Control | Dispense | Spray

**WORLDWIDE LEADERS IN FLUID HANDLING**

[www.graco.com](http://www.graco.com)